

**REPLY COMMENTS OF THE
ALLIANCE OF INDEPENDENT STORE OWNERS AND PROFESSIONALS (AISOP)
AND THE SMALL BUSINESS LEGISLATIVE COUNCIL (SBLC) TO
COMMENTS OF THE NEWSPAPER ASSOCIATION OF AMERICA**

Our comments filed with the President's Commission on February 12, 2003 stated, "Postal Service competitors, or coalitions supported by Postal Service competitors, may argue that the 'first class mailer,' the 'little guy,' or 'small mailer,' needs the Postal Service to be tightly regulated and restricted to protect them from the monopolistic Postal Service and to stop the Postal Service from making 'sweetheart deals' with 'big mailers.' This is not the voice of small business." (AISOP/SBLC Comments at pp. 2 and 3.)

In comments submitted by the Newspaper Association of America (NAA), the trade association that represents the media and newspaper companies that control 90% of the United States daily newspaper circulation, NAA stated:

- "Newspapers are principally concerned that the Postal Service has strayed from its public service mission by focusing on high volume mail, and thereby favoring direct mailers who compete with newspapers for the distribution of advertising – all at the expense of First Class mailers who pay monopoly rates. . . ." (NAA Comments at p.1.)
- For more than two decades, the Postal Service has favored one set of competitors – namely large direct mailers – over newspapers in the battle for advertising revenues. . . .misusing its authority and keeping First-Class mail rates unnecessarily high and bulk mail rates inappropriately low." (NAA Comments at p.4.)

- NAA attacked the Postal Service for “an endless stream of rate proposals to shift costs off of advertising mail onto First Class so that saturation advertising mail rates can be lowered.” (NAA Comments at p.5.)
- NAA concluded that, “The postal system. . .is a national treasure that should serve the nation equally. The widow, the immigrant, the Social Security recipient, and the small businessman should receive the same attention, and be equally valued to the Postal Service, as the nation’s largest mailers.”

AISOP warned the Commission that Postal Service competitors, like NAA, would claim to speak on behalf of “first class mailers,” “little guys,” and “small business.” (We overlooked the widows and immigrants.) But NAA’s comments do not represent the concerns and needs of small business, American consumers, and the general public for these reasons.

Saturation mail gives small business advertisers a targeted method of reaching existing and potential customers near their stores. AISOP, SBLC, and the National Federation of Independent Business (NFIB)¹ have submitted comments to this Commission about the lack of affordable alternatives to small firms offered by traditional print and electronic media, like the daily newspapers represented by NAA. NFIB’s comments of February 12 stressed the value of saturation mail to small firms:

“One area which the NFIB is particularly concerned about is the possible increase in rates for ‘saturation mail,’ such as that found in mass-mailed coupon books or ‘valpaks’. Many small firm owners are wholly dependent upon this type of advertising in marketing their products and services. . . We therefore believe it is imperative to maintain a low and reasonable rate for this kind of service. . .

[T]his kind of advertising not only performs a vital service to businesses that depend on it, but to consumers who might not otherwise be informed about the prices and products

¹NFIB represents 600,000 small business owners. Its comments on advertising mails’ consumer response is supported by a February, 2001 study by National Family Opinion/NFO World Group.

of millions of local small business owners as well. This kind of mail also encourages competition in an era increasingly dominated by larger firms in many markets. Thus, it is good for the economy and for consumers in general that this kind of competition be encouraged. And the role of the USPS in keeping rates modest so that this kind of saturation advertising be continued into the indefinite future is critical. . .

[T]here is some evidence that Hispanic and African American consumers particularly like this form of advertising and are more likely to use it to become informed about the products of new small firms.”

(NFIB Comments at p.3.)

In many markets, daily newspapers enjoy a practical monopoly for the delivery of print media to homes in their pages or through inserts. Many, if not most, daily newspapers do not give small advertisers the choice of buying zoned coverage or limited circulation buys. Saturation mailers, free papers, coupon envelope companies, and shared mailers, on the other hand, target small retailers and provide zoned advertising services and “small buys” that small businesses can afford. Coupon envelope mailers, such as ValPak, Money Mailer, or SuperCoups®, allow advertisers to mail coupons to their local trade areas in 10,000 home zones.

For all NAA’s criticism of negotiated service agreements (NSAs) and volume discounts, you will not see their member papers offering “nondiscriminatory prices” that treat big and small advertisers the same. Some of the great disadvantages small retailers experience in ad purchases with daily newspapers are the preferences in placement, pricing, and terms given to big advertisers who receive volume and frequency discounts. The big advertiser that commits to a multiple page ad or insert 52 weeks per year, is buying space, or distribution services, in the paper at a much cheaper rate than the small business whose budget is strained to buy an occasional quarter page ad.

Why are the newspapers complaining? Because the existence of saturation or shared mail as an alternative to newspaper delivery limits the ability of newspapers to charge monopoly

prices for the delivery of advertising. When you cut through NAA's rhetoric and perpetual pleas to Washington leaders, the Postal Rate Commission, and now the President's Commission, their real goal is to set saturation mail rates high enough so that newspapers can charge more. When the newspapers complain that the Postal Service should stay out of the "competitive market for advertising services," that the Postal Service should not "intervene" in "advertising markets," or that the Postal Service should not be a "communications entity," it is rhetorical sleight of hand.

AISOP, SBLC, and most mail users appearing before this Commission agree that the Postal Service should tend to its core business of providing letter, flat, and parcel distribution services. We do not support the Postal Service getting into e-commerce, becoming a "communications entity," or support future attempts (or applaud past failures) of the Postal Service trying to provide advertising services. In partnership with mailers, however, the Postal Service can provide valuable distribution services that, in turn, provide advertising and marketing services to small business. As discussed in our testimony, electronic media and most print media, like daily newspapers and magazines, fall short in meeting the needs of the small business.

To serve small businesses, thousands of companies are prepared to provide advertising services that use the Postal Service's delivery network. If the daily newspapers want to offer this service, the ECR high density rates offered by the Postal Service would allow them to compete on an equal (and even lower) cost basis with the saturation mailer, free paper, coupon envelope, or shared mailer.² The battle over saturation mail rates is truly a battle to keep postal rates high

² NAA's testimony conveniently fails to disclose that the same rate subclass subject to its complaints, the Enhanced Carrier Route (ECR) mail subclass, offers a rate category that is uniquely designed to help newspapers offer their advertisers a saturation advertising program that combines the use of the mail and the newspaper's carrier network. This subclass is known as ECR high density mail. For advertisers who want to reach all consumers in their market area,

enough to allow newspapers to charge premium prices to retailers who want to insert preprinted advertising into their pages.

For all its complaints about the Postal Service's motives or predatory behavior, NAA has provided scant data about how its members set prices and their practices in the competitive marketplace. The present ratemaking scheme gives Postal Service competitors the right to be heard and requires the Postal Rate Commission to consider the effect of rates "on enterprises in the private sector." The reason why NAA likes to talk about First Class mailers, widows, immigrants, and small business – rather than impact on newspapers – is because Postal Service rates are not having an unfair or uncompetitive effect on daily newspapers. That competition is beneficial, because it forces all the competitors – newspapers and mailers – to offer more choices and better products and prices to advertisers.

Nothing in NAA's comments show what Postal Service First Class rates might be if the Postal Service lost portions of the revenue contribution it currently receives from advertising mail. If the Postal Service adopts noncompetitive pricing practices, and loses contribution to revenue, First Class mailers will not benefit.

CONCLUSION

AISOP has participated in every postal rate case and major reclassification proceeding since 1984. Over the years, NAA, and other associations or coalitions of Postal Service

newspapers do not work because not all people subscribe to the paper. To meet the needs of these advertisers, many newspapers offer total market coverage (TMC) programs where subscribers get an advertiser's insert in the pages of their paper and a package of combined advertisements is mailed to nonsubscribers. Newspapers can take advantage of the same Postal Service rate class available to saturation mailers to offer advertisers full saturation services. Because the cost of private carrier delivery is usually cheaper than the postal rate to send a piece by mail, the newspaper is in a position to enjoy lower costs than its mailer competitors in offering TMC advertising distribution services.

competitors, have repeatedly argued on behalf of small business or First Class mailers to adopt rates, laws, or policies that would protect or limit the competition NAA's members face from mailers that offer advertising distribution services through the mail. This is one of the reasons we and other mailers coalitions have called for a President's Commission. The present regulatory scheme and ratemaking system gives Postal Service competitors an opportunity to fight for price protection that limits the choices of advertising customers, artificially inflates the prices paid by big and small businesses for advertising services, and makes more money for Postal Service competitors. As the "big mailers" and daily newspapers fight over who gets to deliver the grocery ads, America's small businesses have higher postal rates and fewer choices. That is not the voice of America's small business.

Respectfully submitted,

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